Vulamehlo Local Municipality
Annual Financial Statements
for the year ended 30 June 2013
Auditor General (South Africa)

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Providing sevices to the community of Vulamehlo
Executive Committee	
	Councillor WT Dube (Mayor) Councillor NP Mpanza (Deputy Mayor) Councillor DMM Hlengwa (Speaker) Councillor BC Mqadi (Exco Member) Councillor MD Ncwane (Exco Member)
Councillors	Councillor NR Dlamini Councillor DP Duma Councillor GZ Jwara Councillor PM Dlamini Councillor LL Kweyama Councillor AS Mchunu Councillor RP Mngadi Councillor T Muthwa Councillor BG Myeza Councillor ZT Hlongwa Councillor MC Ngcobo Councillor MA Ntombela Councillor RTP Phetha Councillor FB Shezi Councillor TE Sibisi
Accounting Officer (Municipal Manager)	Mr M H Zulu
Chief Financial Officer (CFO)	MR T Khwela
Registered Office	P77 Main Road Dududu 4180
Business Address	P77 Main Road Dududu 4180
Postal Address	Private Bag X5509 Scottburgh 4180
Bankers	Absa Bank Standard Bank
Auditors	Auditor General (South Africa)

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
LED	Local Economic Development
MSIG	Municipal System Improvement Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. Any system of internal financial control, however, can only provide a reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the National Treasury has neither the intention nor the need to liquidate or curtail materially the scale of municipality.

I certify that the salaries, allowances and benefits of councillors in note 17 of these annual financial statements are within upper limits of the framework envisaged in section 219 of the constitution, read with the remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 30 august 2013 and were signed on its behalf by:

Mr M H Zulu
Municipal Manager

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Receivables from exchange transactions	5	168 162	136 541
VAT receivable	6	2 169 552	1 750 606
Trade and other receivables from non exchange transactions	7	1 505 925	869 379
Current portion of non-current receivables	4	45 836	-
Cash and cash equivalents	8	12 780 095	4 268 664
		16 669 570	**7 025 190**
Non-Current Assets			
Property, plant and equipment (depreciation)	2	114 510 570	108 284 465
Intangible assets	3	154 957	778 597
Non-current receivables	4	-	433 327
		114 665 527	**109 496 389**
Total Assets		**131 335 097**	**116 521 579**
Liabilities			
Current Liabilities			
Finance lease obligation	9	1 258 986	1 730 168
Payables from exchange transactions	12	3 087 211	746 181
Unspent conditional grants and receipts	10	10 155 978	2 981 111
Provisions	11	1 399 368	1 121 286
		15 901 543	**6 578 746**
Non-Current Liabilities			
Finance lease obligation	9	669 049	1 838 814
Total Liabilities		**16 570 592**	**8 417 560**
Net Assets		**114 764 505**	**108 104 019**
Net Assets			
Accumulated surplus		114 764 505	108 104 019

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Rental of facilities and equipment	24	197 187	189 385
Other income	15	308 970	130 491
Interest received	20	482 072	220 801
Property rates	13	1 847 388	1 487 113
Government grants & subsidies	14	55 081 108	48 521 718
Total revenue		**57 916 725**	**50 549 508**
Expenditure			
Employee related costs	17	(13 294 410)	(10 957 856)
Remuneration of councillors	18	(6 668 893)	(5 153 714)
Depreciation and amortisation expense	21	(6 536 129)	(5 665 702)
Finance Costs	22	(314 660)	(410 760)
Repairs and maintenance		(878 168)	(610 053)
Grants and subsidies paid	25	(8 890 445)	(3 547 843)
General expenses	16	(15 281 389)	(14 322 896)
Total expenditure		**(51 864 094)**	**(40 668 824)**
Operating surplus		**6 052 631**	**9 880 684**
Gain on disposal of assets and liabilities		157 682	-
Surplus for the year		**6 210 313**	**9 880 684**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	**98 223 335**	**98 223 335**
Changes in net assets		
Surplus for the year	9 880 684	9 880 684
Total changes	9 880 684	9 880 684
Opening balance as previously reported	108 770 787	108 770 787
Adjustments		
Prior year adjustments	(216 595)	(216 595)
Balance at 01 July 2012 as restated	**108 554 192**	**108 554 192**
Changes in net assets		
Surplus for the year	6 210 313	6 210 313
Total changes	6 210 313	6 210 313
Balance at 30 June 2013	**114 764 505**	**114 764 505**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Grants		63 806 234	47 896 085
Interest Income		482 072	220 801
Receipts from customers		1 000 555	953 853
		65 288 861	49 070 739
Payments			
Employee Costs		(19 963 303)	(16 111 570)
Finance costs		(313 210)	(410 760)
Payments to suppliers		(22 578 151)	(19 440 404)
Movement in VAT		-	-
		(42 854 664)	(35 962 734)
Net cash flows from operating activities	26	**22 434 197**	**13 108 005**
Cash flows from investing activities			
Purchase of property, plant and equipment (depreciation)	2	(13 167 217)	(16 652 811)
Proceeds from sale of Property, Plant and Equipment	2	808 380	-
Purchase of other intangible assets	3	-	(363 552)
Proceeds from non - current receivables		387 491	94 000
Net Cash Flows from Investing Activities		**(11 971 346)**	**(16 922 363)**
Cash Flows from Financing Activities			
Finance lease payments		(1 951 420)	1 976 282
Net increase/(decrease) in cash and cash equivalents		**8 511 431**	**(1 838 076)**
Cash and cash equivalents at the beginning of the year		4 268 664	6 106 740
Cash and cash equivalents at the end of the year	8	**12 780 095**	**4 268 664**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	203 000	10 000	**213 000**	197 187	**(15 813)**	
Other income - (rollup)	66 050	13 200	**79 250**	308 970	**229 720**	
Interest received - investment	230 250	-	**230 250**	482 072	**251 822**	
Total revenue from exchange transactions	**499 300**	**23 200**	**522 500**	**988 229**	**465 729**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	1 488 626	-	**1 488 626**	1 847 388	**358 762**	
Government grants & subsidies	35 614 000	-	**35 614 000**	55 081 108	**19 467 108**	
Total revenue from non-exchange transactions	**37 102 626**	**-**	**37 102 626**	**56 928 496**	**19 825 870**	
Total revenue	**37 601 926**	**23 200**	**37 625 126**	**57 916 725**	**20 291 599**	
Expenditure						
Employee related costs	(14 093 394)	-	**(14 093 394)**	(13 294 410)	**798 984**	
Remuneration of councillors	(5 085 952)	(1 000 000)	**(6 085 952)**	(6 668 893)	**(582 941)**	
Depreciation and amortisation	(5 400 000)	-	**(5 400 000)**	(6 536 129)	**(1 136 129)**	
Finance costs	(340 800)	-	**(340 800)**	(314 660)	**26 140**	
Debt impairment	(1 000 000)	-	**(1 000 000)**	(184 083)	**815 917**	
Repairs and maintenance	(933 700)	(470 000)	**(1 403 700)**	(878 168)	**525 532**	
Grants and subsidies paid	(7 429 000)	(600 000)	**(8 029 000)**	(8 890 445)	**(861 445)**	
General Expenses	(14 958 435)	(590 200)	**(15 548 635)**	(15 097 306)	**451 329**	
Total expenditure	**(49 241 281)**	**(2 660 200)**	**(51 901 481)**	**(51 864 094)**	**37 387**	
Operating surplus	**(87 680 407)**	**35 778 926**	**(51 901 481)**	**6 052 631**	**57 954 112**	
Gain on disposal of assets and liabilities	-	-	**-**	157 682	**157 682**	
Surplus or (Deficit)	**(87 680 407)**	**35 778 926**	**(51 901 481)**	**6 210 313**	**58 111 794**	

Accounting Policies

1. Presentation of Annual Financial Statements

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the “Changes in accounting policy note.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005

GRAP 20 Related Party Disclosures (Revised)

GRAP 25 Employee Benefits - issued December 2009

GRAP 105 Transfers between entities under common control - issued November 2010

GRAP 106 Transfers between entities not under common control - issued November 2010

GRAP 107 Mergers - issued November 2010

The Minister of Finance annouced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

"The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in he standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors."

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

1.1 Presentation of Currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Accounting Policies

1.2 Going Concern Basis

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

1.3 Comparative Figures

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure E to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.4 Property, plant and equipment (depreciation)

Property, plant and equipment (depreciation) are tangible non-current assets (including infrastructure assets) that are held for use in the provision of services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment (depreciation) is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment (depreciation) is initially measured at cost.

The cost of an item of property, plant and equipment (depreciation) is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment (depreciation) is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment (depreciation) have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment (depreciation).

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment (depreciation) and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment (depreciation), the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of PPE

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Subsequent expenditure is capitalized when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, is stated at cost, less accumulated depreciation, except for roads, community assets and stormwater drains which are revalued. Land is not depreciated as it is deemed to have an indefinite life.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment (depreciation) with a cost that is significant in relation to the total cost of the item is depreciated separately.

Accounting Policies

1.4 Property, plant and equipment (depreciation) (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment (depreciation) is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment (depreciation) is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and its impairment loss is charged to the Statement of Financial Performance.

INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

During the year, the Municipality has adopted GRAP 17, with full compliance as set per the statement.

SUBSEQUENT MEASUREMENT - REVALUATION MODEL

Subsequent to initial recognition, an item of property, plant and equipment are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

1.4 Property, plant and equipment (depreciation) (continued)

Infrastructure	-
Roads and Paving	10 years
Community	
Buildings	8 to 30 years
Water tanks	10 years
Other	
Buildings	30 years
Motor vehicles	5 years
Plant and machinery	10 years
Office equipment	3 to 7 years
Furniture and fittings	3 to 8 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.5 Intangible assets

INITIAL RECOGNITION

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
- the municipality intends to complete the intangible asset for use.
- it is technically feasible to complete the intangible asset.
- the municipality has the resources to complete the project ; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

1.5 Intangible assets (continued)

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

SUBEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Computer software, other	3- 5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Financial Instruments

Classification

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.6 Financial Instruments (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously."

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility."

Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

(a) derivatives;

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Accounting Policies

1.6 Financial Instruments (continued)

Type of Financial Asset	**Classification in terms of GRAP 10**4
Short-term Investment Deposits – Call	Financial asset at amortised cost
Bank Balances and Cash	Financial asset at amortised cost
Long-term Receivables	Financial asset at amortised cost
Consumer Debtors	Financial asset at amortised cost
Other Debtors	Financial asset at amortised cost
Investments in Fixed Deposits	Financial asset at amortised cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:

(i) Financial liabilities measured ar fair value or
(ii) Financial liabilities measured at amortised cost
(iii) Financial liabilities measured at cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liabilities	**Classification in terms of GRAP 104**
Long term Liaibilities	Financial liability at amortised cost
Other Creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost
Short-term Loans	Financial liability at amortised cost
Current portion of Long-Term Liabilities	Financial liability at amortised cost

Financial liabilities that are measured at fair value financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

Initial and Subsequent Measurement

a) Financial Assets

"Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial asset at amortised cost."

Financial Assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Accounting Policies

1.6 Financial Instruments (continued)

b) Financial liabilities

Financial liabilities measured at fair value

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities measured at amortised cost

Any other financial liabilities are classified as ""Other financial liabilities"" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Impairment of financial assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Accounts receivables encompassess long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

Impairment of Financial Assets measured at cost

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Accounting Policies

1.6 Financial Instruments (continued)

Derecognition

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.7 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.8 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.9 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.10 Provisions and Contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. The receivable is calculated as a sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables

Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in statement of financial performance

Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

Accounting Policies

1.12 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.13 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Donations and Contributions

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.15 Employee Benefits

Short-term employee benefits

The cost of short term employee benefits,(those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period which the service is rendered and are not discounted and is accounted for as a currently liability.

Post-employment benefits: Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality’s contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.16 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the adjustment for errors in the prior year is as follows: after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Irrespective of whether there is any indication of impairment, the municipality also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.16 Impairment of assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.16 Impairment of assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.16 Impairment of assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.17 Use of Estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting Policies

1.19 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.20 Budget Information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Valued Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (depreciation)

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	3 397 835	(1 115 841)	2 281 994	3 397 835	(974 942)	2 422 893
Infrastructure	21 516 091	(609 053)	20 907 038	805 948	(161 190)	644 758
Community	131 911 694	(53 720 443)	78 191 251	123 559 162	(48 993 774)	74 565 388
Assets under construction	9 335 825	-	9 335 825	25 927 815	-	25 927 815
Other assets	7 554 873	(3 760 411)	3 794 462	9 052 167	(4 328 556)	4 723 611
Total	**173 716 318**	**(59 205 748)**	**114 510 570**	**162 742 927**	**(54 458 462)**	**108 284 465**

Reconciliation of property, plant and equipment (depreciation) - 2013

	Opening balance	**Additions**	**Transfer from assets under construction**	**Disposals**	**Depreciation**	**Total**
Buildings	2 422 893	-	-	-	(140 899)	2 281 994
Infrastructure	644 758	-	20 609 400	-	(347 120)	20 907 038
Community	74 565 388	-	8 352 533	-	(4 726 670)	78 191 251
Assets under construction	25 927 815	12 369 943	(28 961 933)	-	-	9 335 825
Other assets	4 723 611	797 274	-	(711 227)	(1 015 196)	3 794 462
	108 284 465	**13 167 217**	**-**	**(711 227)**	**(6 229 885)**	**114 510 570**

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (depreciation) (continued)

Reconciliation of property, plant and equipment (depreciation) - 2012

	Opening balance	Additions	Revaluations	Depreciation	Total
Buildings	2 565 396	-	-	(142 503)	2 422 893
Infrastructure	700 666	-	21 226	(77 134)	644 758
Community	78 135 681	-	142 160	(3 712 453)	74 565 388
Assets under construction	12 113 106	13 814 709	-	-	25 927 815
Other assets	3 021 741	2 838 102	-	(1 136 232)	4 723 611
	96 536 590	**16 652 811**	**163 386**	**(5 068 322)**	**108 284 465**

Pledged as security

Carrying value of assets pledged as security:

Motor Vehicles	493 051	844 988
Finance lease agreements are secured by motor vehicles with ABSA Bank Limited. Refer note(14)		
Plant and Equipment	1 784 167	1 998 267
Finance lease agreements are secured by Grader with ABSA Bank Limited. Refer note (14)		

Revaluations

The effective date of the revaluations was 30 June 2013. Revaluations were performed by an independent valuer. Land and building are re-valued independently annually.

The valuation was performed using the Depreciated Replacement Cost.

Community	78 629 146	74 423 227
Infrastructure	7 342 316	2 260 553
	85 971 462	**76 683 780**

Figures in Rand	2013	2012

2. Property, plant and equipment (depreciation) (continued)

Changes in Accounting Estimates

The municipality changed it accounting policy of property, plant and equipment to comply fully with GRAP 17. The opening balances at the begining of 2011 will be adjusted, while the comparatives were restated accordingly.	-	844 988

The net effect in the change in accounting policy on the result of 2010 and 2011 were as follows, should the revaluation be performed taking current years valuation into account.

Community Assets

	2012	2011	2010
Cost	-	-	-
Restated value	123 455 653	131 527 819	139 853 494
Original Value	(110 524 928)	(110 524 928)	(100 910 460)
Net movement in cost	**12 930 725**	**21 002 891**	**38 943 034**

Community Assets			
Terms and conditions			
Restated value	48 973 072	52 600 667	56 248 614
Original Value	(36 184 928)	(32 472 055)	28 940 280
Net movement in cost	**12 930 306**	**21 002 891**	**96 823 594**
Net movement to Asset revaluation surplus	142 162	874 279	11 634 700

The changes in accounting policies was not applied retrospectively as revaluations was not performed in the previous years. The calculations performed with previous years was taking into account current valuations performed in 2012. The entire population of the property, plant and equipement was valued and the only asset that required a retrospective disclosure was community assets. The infrastructure was brought in 2011 financial statememts and the first valuation was performed in 2012. The other assets of property, plant and equipement was valued as stated in note 2 and no adjustments were done.

3. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer Software	2 395 031	(2 240 074)	154 957	2 395 031	(1 616 434)	778 597

Reconciliation of intangible assets - 2013

	Opening balance	**Amortisation**	**Total**
Computer Software	778 597	(623 640)	154 957

3. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer Software	1 012 421	363 552	(597 376)	778 597

Pledged as security

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

4. Non-current receivables

Long tern debtor is an amount owed by Renaissance Projects cc as a result of fraud against the municipality. The affected party was found guilty and given a suspended sentence of four years on condition that the misappropriated funds are paid back to the municipality. An amount of R387 491.23 was paid in the current period.

	2013	2012
Opening balance	433 327	527 327
Amount repaid	(387 491)	(94 000)
Transferred to current	(45 836)	-
	-	**433 327**

5. Receivables from exchange transactions

	2013	2012
Trade debtors	123 375	123 375
Deposits	11 897	3 437
Prepaid expenses	32 890	9 729
	168 162	**136 541**

Trade and other receivables pledged as security

The municipality did not pledge any of its Receivables as security for borrowing purposes.

6. VAT receivable

	2013	2012
VAT	2 169 552	1 750 606

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

7. Trade and other receivables from non - exchange transactions

	2013	2012
Gross balances		
Rates	2 505 907	1 152 917
Less: Allowance for impairment		
Rates	(999 982)	(283 538)
Net balance		
Rates	1 505 925	869 379

Figures in Rand	2013	2012

7. Trade and other receivables from non - exchange transactions (continued)

Rates		
Current (0 -30 days)	125 677	45 283
31 - 60 days	121 432	23 682
61 - 90 days	135 340	23 300
91 - 120 days	90 419	22 815
121 - 365 days	133 814	20 735
> 365 days	899 243	733 564
	1 505 925	**869 379**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(815 900)	(572 012)
Contributions to allowance	(184 082)	288 474
	(999 982)	**(283 538)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Cash and cash equivalents

Cash and Cash Equivalents consist of:

Cash on Hand	5 000	3 552
Bank Balances	4 342 888	1 138 787
Call deposits	8 432 207	3 126 325
	12 780 095	**4 268 664**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
First National Bank Limited - Gijima Branch -Account Number: 62086728642	-	-	(859)	-	-	-
First National Bank Limited - Gijima Branch -Account Number: 620261049401	-	-	(829)	-	-	-
ABSA Bank Limited - Scottburg Branch: Account Number-4074472671(MPRA)	1 083 353	56 058	360 156	1 083 353	56 058	360 156
ABSA Bank - Account Type - Cheque Account- 406999-1393	5 571 357	1 082 729	1 335 785	3 259 535	1 082 729	-
Absa bank call - 9278060312	5 164 232	-	-	5 164 232	-	-
Standard bank 32 day call - 058771204	3 267 975	3 126 325	-	3 267 975	3 126 325	-
Total	**15 086 917**	**4 265 112**	**1 694 253**	**12 775 095**	**4 265 112**	**360 156**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

9. Finance lease obligation

Minimum lease payments due		
- within one year	2 010 634	1 730 168
- in second to fifth year inclusive	669 047	1 838 813
	2 679 681	3 568 981
less: future finance charges	(751 647)	(500 216)
Present Value of minimum Lease Payments	**1 928 034**	**3 068 765**
Present value of minimum lease payments due		
- within one year	1 258 986	1 730 168
- in second to fifth year inclusive	669 047	1 338 597
	1 928 033	**3 068 765**
Non-Current Liabilities	669 049	1 838 814
Current Liabilities	1 258 986	1 730 168
	1 928 035	**3 568 982**

Instalment sale agreements are secured with plant with carrying value of R1 784 166.67, repayable in monthly instalments of R79135 and bears interest of betwwen 10% and 15%.

Instalment sale agreements are secured with motor vehicles with carrying value of R493 051, repayable in monthly instalments of R45 375 and bears interest of betwwen 10% and 15%.

10. Unspent conditional grants and receipts

Unspent Conditional Grants and Receipts comprises of:

Unspent conditional grants and receipts		
Johnny area community gardens grant	5 727	5 727
Integrated National Electrification grant	1 222 758	1 451 668
Disaster grant	2 900 000	-
Thusong Centre Management Grant	103 295	346 099
Financial management grant	116 538	89
MIG	4 839 850	-
DLGTA-Anti corruption grant	125 205	125 205
Municipal government and admin expert	-	25 968
LG seta grant	-	28
MSIG	-	1 008
KZN sports grant	673 416	581 713
COGTA - LED strategy	120 170	394 587
Development of municipal housing grant	17 418	17 418
Homeowners ploughing assistance programme	14 905	14 905
CDW grant	1 474	1 474
DTLGA - HR systems	7 000	7 000
Amahwaga housing project	1 000	1 000
Peanut butter project grant	57	57
Development planning	3 354	3 354
Umdumezulu/Ismahla rural housing project	131	131
Mjunundu Community Gardens Grant	3 680	3 680
Total unspent Conditional Grants and Receipts	**10 155 978**	**2 981 111**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

10. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	2 981 111	3 765 583
Additions during the year	26 774 976	18 964 031
Income recognition during the year	(19 600 109)	(19 748 503)
	10 155 978	**2 981 111**

See note 14 for reconciliation of grants from National/Provincial Government.

11. Provisions

Reconciliation of provisions - 2013

	Opening Balance	movement	Total
Provision for Annual Bonus	436 571	(58 515)	378 056
Provision for Leave Pay	684 715	336 597	1 021 312
	1 121 286	**278 082**	**1 399 368**

Reconciliation of provisions - 2012

	Opening Balance	movement	Total
Provision for Annual Bonus	356 310	80 261	436 571
Provision for Leave Pay	562 836	121 879	684 715
	919 146	**202 140**	**1 121 286**

The movement in current provisionsare reconciled as follows:-

	Performance Bonus	Provision for leave
as at 1 July 2012	436 751	684 715
Contributions to provision	(58 515)	336 597
as at 30 June 2013	**378 236**	**1 021 312**
as at 1 July 2011	356 310	562 836
Contributions to provision	527 609	188 186
Expenditure incurred	(447 348)	(66 307)
as at 30 June 2012	**436 571**	**684 715**

12. Payables from exchange transactions

Trade Payables	1 368 638	153 376
Payments received in advanced - contract in process	119 420	82 038
Other Payables	1 599 153	510 767
	3 087 211	**746 181**

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

Figures in Rand	2013	2012

13. Property Rates

Rates Levied

Agriculture	1 713 508	1 346 217
Commercial	19 750	19 750
State	114 130	121 146
	1 847 388	**1 487 113**

Figures in Rand	2013	2012

14. Government Grants and Subsidies

Equitable share	35 481 000	28 773 000
MIG	11 568 150	15 740 648
Integrated National Electrification grant	5 228 910	548 332
Financial management grant	1 383 551	1 499 911
MSIG grant	801 008	788 992
KZN Sports grant	58 297	-
COGTA - LED strategy	274 417	5 413
Thusong Centre Management Grant	242 803	153 901
Municipal government and administration expert	25 968	521 920
LG Seta grant	17 004	98 002
MAP (DTLGA - Municipal Finance)	-	391 599
	55 081 108	**48 521 718**

MIG

Balance unspent at beginning of year	-	2 214 648
Current-year receipts	16 408 000	13 526 000
Conditions met - transferred to revenue	(11 568 150)	(15 740 648)
	4 839 850	**-**

Conditions still to be met - remain liabilities (see note 10).

Integrated National Electrification grant

Balance unspent at beginning of year	1 451 668	-
Current-year receipts	5 000 000	2 000 000
Conditions met - transferred to revenue	(5 228 910)	(548 332)
	1 222 758	**1 451 668**

Conditions still to be met - remain liabilities (see note 10).

Finance management grant

Balance unspent at beginning of year	89	-
Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue	(1 383 551)	(1 499 911)
	116 538	**89**

Conditions still to be met - remain liabilities (see note 10).

Figures in Rand	2013	2012

14. Government Grants and Subsidies (continued)

Municipal systems improvement grant (MSIG)

Balance unspent at beginning of year	1 008	-
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(801 008)	(788 992)
	-	**1 008**

Conditions still to be met - remain liabilities (see note 10).

KZN sports grant

Balance unspent at beginning of year	581 713	431 713
Current-year receipts	150 000	150 000
Conditions met - transferred to revenue	(58 297)	-
	673 416	**581 713**

Conditions still to be met - remain liabilities (see note 10).

Disaster grant

Current-year receipts	2 900 000	-

Conditions still to be met - remain liabilities (see note 10).

COGTA - LED strategy

Balance unspent at beginning of year	394 587	-
Current-year receipts	-	400 000
Conditions met - transferred to revenue	(274 417)	(5 413)
	120 170	**394 587**

Conditions still to be met - remain liabilities (see note 10).

Thusong Centre Management Grant

Balance unspent at beginning of year	346 099	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(242 804)	(153 901)
	103 295	**346 099**

Conditions still to be met - remain liabilities (see note 10).

Municipal government and admin expert

Balance unspent at beginning of year	25 968	547 888
Conditions met - transferred to revenue	(25 968)	(521 920)
	-	**25 968**

Conditions still to be met - remain liabilities (see note 10).

LGSETA GRANT

Balance unspent at beginning of year	28	-
Current-year receipts	16 976	98 031

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

14. Government Grants and Subsidies (continued)

Conditions met - transferred to revenue	(17 004)	(98 003)
	-	**28**

Conditions still to be met - remain liabilities (see note 10).

MAP (DTLGA - Municipal Finance)

Balance unspent at beginning of year	-	391 599
Conditions met - transferred to revenue	-	(391 599)
	-	**-**

Conditions still to be met - remain liabilities (see note 10).

Johnny Area Community Gardens grant

Balance unspent at beginning of year	5 727	5 727

Conditions still to be met - remain liabilities (see note 10).

DLGTA-Anti corruption grant

Balance unspent at beginning of year	125 205	125 205

Conditions still to be met - remain liabilities (see note 10).

Development of municipal housing grant

Balance unspent at beginning of year	17 418	17 418

Conditions still to be met - remain liabilities (see note 10).

Homeowners ploughing assistance programme

Balance unspent at beginning of year	14 905	14 905

Conditions still to be met - remain liabilities (see note 10).

CDW grant

Balance unspent at beginning of year	1 474	1 474

Conditions still to be met - remain liabilities (see note 10).

DTLGA - HR systems

Balance unspent at beginning of year	7 000	7 000

Conditions still to be met - remain liabilities (see note 10).

Amahwaqa housing project grant

Balance unspent at beginning of year	1 000	1 000

Conditions still to be met - remain liabilities (see note 10).

Figures in Rand	2013	2012

14. Government Grants and Subsidies (continued)

Peanut butter project grant

Balance unspent at beginning of year	57	57

Conditions still to be met - remain liabilities (see note 10).

Development planning grant

Balance unspent at beginning of year	3 354	3 354

Conditions still to be met - remain liabilities (see note 10).

Umdumezulu/Ismahla rural housing project

Balance unspent at beginning of year	131	131

Conditions still to be met - remain liabilities (see note 10).

Mjunundu community gardens grant

Balance unspent at beginning of year	3 680	3 680

Conditions still to be met - remain liabilities (see note 10).

15. Other income

Miscellaneous income	308 970	130 491

Other income includes amounts realised from tender documents sales, rate clearance cerificates, hall hire and any other income which is not routine.

16. General Expenses

Advertising	264 989	122 590
Auditors Remuneration	866 783	634 083
Bank Charges	102 084	75 504
Cleaning	25 514	11 149
Computer Expenses	183 029	669 154
Conferences and delegations	629 917	1 858 476
Provision for bad debts	184 083	243 888
Discretionary Fund	366 590	284 779
Entertainment	171 826	221 785
Fuel	867 191	614 052
Insurance	594 543	-
Legal fees	1 823 624	1 970 596
Other expenses	1 077 781	526 660
Printing and Stationery	398 472	240 710
Projects	6 665 927	6 007 930
Security	247 526	247 526
Subscriptions and publication	440 928	149 364
Telephone and Fax	348 719	391 296
Water and sanitation	21 863	53 354
	15 281 389	**14 322 896**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

17. Employee related costs

Basic salary	10 055 939	8 975 146
Company contributions	1 414 452	1 059 438
Skill Development LevyL	159 400	113 099
Travel allowances	900 998	124 573
Acting allowances	38 270	158 659
Housing benefits and allowances	214 644	-
Group Life	88 082	76 447
Bonus	419 467	447 348
Other salary costs	3 158	3 146
	13 294 410	**10 957 856**

Remuneration of municipal manager

Annual Remuneration	494 750	455 292
Car Allowance	126 697	142 633
Contributions to UIF, Medical and Pension Funds	175 567	159 051
Other	38 098	-
	835 112	**756 976**

Remuneration of chief finance officer

Annual Remuneration	281 219	324 521
Car Allowances	200 000	232 000
Other	35 725	6 621
	516 944	**563 142**

The Chief Financial Officer's contract ended on the 30 April 2013

Remuneration of Corporate Services Director

Annual Remuneration	441 044	274 155
Car Allowance	107 000	330 446
Other	117 165	125 657
	665 209	**730 258**

Remuneration of the Technical Services Director

Annual Remuneration	371 044	268 982
Car Allowance	265 000	273 848
Other	58 082	-
	694 126	**542 830**

18. Remuneration of Councillors

Mayor	628 153	429 711
Deputy Mayor	504 040	343 768
Executive Committee Members	941 375	384 196
Speaker	507 040	343 768
Councillors	4 088 285	3 652 271
	6 668 893	**5 153 714**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

18. Remuneration of Councillors (continued)

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. The Mayor and the speaker are provided with an office and secretarial support at the cost to the municipality. The mayor is also allocated a driver to help with his day to day activities.

The Mayor has the use of separate Council owned vehicles for official duties.

The Mayor did no have bodyguards during the current year.

19. Debt Impairment

20. Interest received

Interest revenue		
Bank - call and cheques accounts	482 072	220 801

21. Depreciation and Amortisation

Property, plant and equipment (depreciation)	5 912 489	5 068 326
Intangible assets (armortisation)	623 640	597 376
	6 536 129	**5 665 702**

22. Finance costs

Finance Leases	310 473	407 917
Bank	4 187	2 843
	314 660	**410 760**

23. Auditors' Remuneration

Fees	866 783	634 083

Auditor's remuneration relates to amounts paid to the Auditor General

24. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	197 187	189 385

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Grants and subsidies paid

Grants paid to ME's		
MSIG	903 304	210 182
Map grant	-	348 000
INEP	5 612 250	509 571
Burial assistance	-	1 169
Cemetery	410 068	393 756
Youth programme	486 520	402 904
Municipal infrastructure investment programme	-	17 888
GIS	-	24 500
Ward committee induction	728 113	200 564
LG seta grant	-	11 970
Municipal government and admin expert	25 525	457 825
FMG	602 646	941 071
LED review strategy	-	5 915
Thusong administration grant	69 990	936
KZN sport grant	52 029	21 592
	8 890 445	**3 547 843**

26. Cash Generated from Operations

Surplus	6 210 313	9 880 684
Adjustments for:		
Depreciation and Amortisation	6 536 129	5 665 702
(Profit) /Loss on Sale of Assets and Liabilities	(157 682)	-
Movements in Provisions	278 082	202 140
Other non-cash items	738 622	(688 342)
Changes in Working Capital:		
Receivables from exchange transactions	(31 621)	(6 515)
Trade and other receivables from non exchange transaction	(236 599)	(313 306)
Payables from exchange transactions	2 341 032	(579 217)
VAT	(418 946)	(427 509)
Unspent conditional grants and receipts	7 174 867	(625 632)
	22 434 197	**13 108 005**

27. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	6 062 608	9 925 083

This committed expenditure relates to and will be financed by Government Grants.

28. Contingent Liabilities

No contingent liabilities have been identified at year end.

29. Prior Year Adjustment

The correction of the error(s) results in adjustments as follows:

29. Prior Year Adjustment (continued)

Adjustment for errors in the prior year is as follows:

Stale cheque accrued in error	-	(17 700)
Correction of opening balance (SAPO)	-	450
Correction of VAT refund	-	448 669
Correction of accruals opening balance	-	(14 733)
Correction of trade creditors opening balance	-	6 249
Correction of openning creditors openning balances	-	26 928
Correction of work in progress expensed in 2010/2011 financial year	-	210 474
Correction of lease liability (SAP system)	-	(31 062)

30. Comparative figures

Certain comparative figures have been restated

31. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

The municipality has interest-bearing assets of R3 126 325, (2011 - R4 407 487) .However, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2013**	**2012**
Bank Accounts	12 780 095	4 268 664
Trade receivables from non exchange transactions	1 505 925	337 017
Receivables from exchange transactions	151 594	135 588
Current portion of non current receivables	45 836	-

32. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

33. Fruitless and wasteful expenditure

Interest on overdue accounts	1 449	-
Insuarance premiums on sold vehicles	61 200	-
Amount paid for councillors for training which they did not attend	38 400	-
	101 049	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

34. Irregular expenditure (section 36 Deviations)

Opening balance	30 090 583	19 370 021
Add: Irregular Expenditure - current year	7 392 967	10 720 562
Less: Amounts condoned	(7 392 967)	-
	30 090 583	**30 090 583**

Details of irregular expenditure – current year

	Action taken	
The deviation was a result of minor deviations from SCM policy as per section 36 regulations for emergency requirements.	Amount condoned by council	7 392 967

35. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	-	-
Current year audit fees	702 790	634 083
Amount paid - current year	(683 101)	(634 083)
Balance unpaid included in accruals	**19 689**	**-**

Additional text

PAYE and UIF

Current year payroll deduction	2 875 786	2 659 036
Amount paid - current year	(2 875 786)	(2 659 036)
	-	-

Pension and Medical Aid Deductions

Current year payroll deduction	2 771 471	2 482 141
Amount paid - current year	(2 771 471)	(2 482 141)
	-	-

VAT

VAT receivable	2 169 552	1 750 606

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.